

HOSPITAL SERVICE DISTRICT NO. 1

Parish of Vermilion

State of Louisiana

Kaplan, Louisiana

Financial Report**Years Ended September 30, 2006 and 2005**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)	3-6
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets	7-8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-21
ADDITIONAL INFORMATION	
Schedules of Net Patient Service Revenue	23
Schedules of In-Patient Service Revenue	24
Schedules of Out-Patient Service Revenue	25
Schedules of Other Revenue	26
Schedules of Professional Expenses	27
Schedules of General and Administrative Expenses	28
Schedules of Nonoperating Income	29
Schedule of Commissioners, Meetings Attended and Compensation	30
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32-33
Schedule of Prior Year Findings	34
Schedule of Findings and Questioned Costs	35
Management's Corrective Action Plan	36



E. Larry Sikes, CPA, CVA, CFP™
Danny P. Frederick, CPA
Clayton E. Darnall, CPA, CVA
Eugene H. Darnall, III, CPA
Stephanie M. Higginbotham, CPA
John P. Armato, CPA
J. Stephen Gardes, CPA, CVA
Jennifer S. Ziegler, CPA, CFP™
Chris A. Miller, CPA, CVA
Stephen R. Dischler, MBA, CPA
Steven G. Moosa, CPA
M. Rebecca Gardes, CPA
Pamela Mayeux Bonin, CPA, CVA
Joan B. Moody, CPA
Erich G. Loewer, III, MTX, CPA
Lauren F. Verrett, CPA

Kathleen T. Darnall, CPA
Raegan D. Maggio, CPA
Barbara A. Clark, CPA
Michelle B. Bellard, CPA
Jeremy C. Meaux, CPA
Kevin S. Young, CPA
Barbara Ann Watts, CPA
Adam J. Curry, CPA
Chad M. Bailey, CPA
Carol C. Guillory, CPA
Christy S. Dew, CPA
Heather N. Clement, CPA
Victoria M. LaPrairie, CPA
Emily J. LeBoeuf, CPA
Rachel W. Ashford, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1
Parish of Vermilion, State of Louisiana
Kaplan, Louisiana

We have audited the accompanying financial statements of the Hospital Service District No. 1, Parish of Vermilion, State of Louisiana, a component unit of the Vermilion Parish Police Jury, as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Service District No. 1, Parish of Vermilion, State of Louisiana, as of September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 27, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, grants and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

125 Rue Beauregard
Lafayette, LA 70508
Phone: 337.232.3312
Fax: 337.237.3614

1231 E. Laurel Ave.
Eunice, LA 70535
Phone: 337.457.4146
Fax: 337.457.5060

1201 Brashear Ave.
Suite 301
Morgan City, LA 70380
Phone: 985.384.6264
Fax: 985.384.8140

203 S. Jefferson Street
Abbeville, LA 70510
Phone: 337.893.5470
Fax: 337.893.5470

Member of:
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on pages 23 through 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dannall, Sikes, Gaudes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana

February 27, 2007

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Hospital's annual financial report presents our discussion and analysis of the Hospital's financial performance during the fiscal year that ended on September 30, 2006. Please read it in conjunction with the Hospital's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased by \$1.3 million over the course of this year's operations.
- During the year, the Hospital's operating revenues and nonoperating income of \$10.8 million combined exceeded expenses of \$9.2 million.
- The Hospital had a loss from operations of \$551,000 during 2006 compared to \$601,000 during 2005.
- Net patient service revenue decreased \$.8 million to \$7.4 million from the previous year when net patient service revenue totaled \$8.2 million. The decrease is attributable to the decrease in BHU revenue totaling \$1 million during 2006.
- BHU management fee decreased from \$1.9 million during 2005 to \$.9 million during 2006.
- The Hospital has net assets of \$11.5 million as of September 30, 2006, an increase of \$1.6 million or 16% from the previous year.

USING THIS ANNUAL REPORT

The Hospital's basic financial statements consist of three statements – a statement of Net Assets; a statement of Revenues, Expenses, and Changes in Net Assets; and a statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Hospital's finances begins on page 4. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets as of the fiscal year end and changes in net assets for the entire fiscal year. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE HOSPITAL AS A WHOLE

Net assets. The Hospital's net assets increased between fiscal years 2005 and 2006 by \$1.6 million (See Table A-1).

Table A-1
Hospital's Net Assets
(in Thousands)

	2006	2005
Current and other assets	\$ 11,159	\$ 9,764
Capital assets	<u>1,093</u>	<u>1,202</u>
Total assets	12,252	10,966
Current liabilities	<u>719</u>	<u>1,009</u>
Total liabilities	719	1,009
Net assets		
Invested in capital assets net of related debt	1,093	1,202
Unrestricted	<u>10,440</u>	<u>8,755</u>
Total net assets	<u>\$ 11,533</u>	<u>\$ 9,957</u>

Net assets from the Hospital's activities increased 16 percent to approximately \$11.5 million. A significant component of the change in the Hospital's net assets is the increase in total assets of \$1.3 million offset by a decrease in current liabilities of \$290,000. The increase in total assets is due primarily to an increase in cash of \$1.5 million, while the decrease in current liabilities is primarily due to a decrease in accounts payable of \$260,000.

Changes in net assets. The Hospital's total revenues decreased by one percent to \$10.8 million (See Table A-2). Approximately 69 percent of the Hospital's total revenue comes from net patient services, while sixty-one percent of net patient service revenue is derived from Medicare and Medicaid.

The total cost of all services decreased approximately \$839,000 or 8.4 percent which is attributable to the decrease in management fees of \$877,000.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of Vermilion

State of Louisiana

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table A-2
Changes in Hospital's Net Assets
(in Thousands)

	2006	2005
Operating revenues-		
Net patient service	\$ 7,430	\$ 8,231
Rural coalition	826	643
Other operating	386	556
Nonoperating income-		
Sales tax	1,512	984
Other nonoperating	615	497
Total revenues	<u>10,769</u>	<u>10,911</u>
Expenses		
Salaries	2,474	2,584
Medical and other supplies	1,338	1,459
Management fees	1,649	2,526
Provision for bad debts	1,275	1,270
Operating	2,457	2,193
Total expenses	<u>9,193</u>	<u>10,032</u>
Increase in net assets	<u>\$ 1,576</u>	<u>\$ 879</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Hospital had \$1.1 million invested in capital assets (See Table A-3).

Table A-3
Hospital's Capital Assets
(in Thousands)

	2006	2005
Land	\$ 59	\$ 59
Buildings and land improvements	1,778	1,779
Equipment	<u>2,676</u>	<u>3,284</u>
Total capital assets	4,513	5,122
Accumulated depreciation	<u>3,420</u>	<u>3,920</u>
Net Capital Assets	<u>\$ 1,093</u>	<u>\$ 1,202</u>

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, contact Mr. Lyman Trahan, Administrator, at 1310 W. 7th Street, Kaplan, LA 70548, or by phone at 337-643-8300.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Net Assets
September 30, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 1,553,876	\$ 319,305
Certificates of deposit	5,000,000	4,850,000
Accounts receivable - patients, net	1,888,404	2,306,695
Sales tax receivable	264,598	179,359
Other receivables	30,500	53,379
Estimated third-party payor settlements	140,648	117,855
Inventory	207,844	241,241
Accrued interest receivable	72,479	40,174
Prepaid expenses	<u>57,025</u>	<u>36,283</u>
Total current assets	<u>9,215,374</u>	<u>8,144,291</u>
ASSETS WHOSE USE IS LIMITED BY THE BOARD FOR CAPITAL IMPROVEMENTS		
Cash	935,387	611,108
Certificates of deposit	<u>1,008,750</u>	<u>1,008,500</u>
	<u>1,944,137</u>	<u>1,619,608</u>
PROPERTY, PLANT, AND EQUIPMENT, net		
Land	58,893	58,893
Depreciable assets, net accumulated depreciation	<u>1,033,984</u>	<u>1,143,410</u>
Total capital assets, net of accumulated depreciation	<u>1,092,877</u>	<u>1,202,303</u>
TOTAL ASSETS	<u>\$12,252,388</u>	<u>\$10,966,202</u>

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable	\$ 311,190	\$ 571,990
Accrued wages payable	94,094	71,908
Accrued vacation payable	70,089	57,316
Other payables	8,579	6,999
Estimated third-party payor settlements	<u>234,945</u>	<u>300,811</u>
Total current liabilities	<u>718,897</u>	<u>1,009,024</u>
NET ASSETS		
Invested in capital assets net of related debt	1,092,877	1,202,303
Unrestricted	<u>10,440,614</u>	<u>8,754,875</u>
Total net assets	<u>11,533,491</u>	<u>9,957,178</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 12,252,388</u>	 <u>\$ 10,966,202</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Net patient service revenue	\$ 7,429,545	\$ 8,231,606
Other revenue	<u>1,212,408</u>	<u>1,198,612</u>
Total revenue	<u>8,641,953</u>	<u>9,430,218</u>
OPERATING EXPENSES		
Salaries	2,474,466	2,485,760
Employee benefits	1,082	23,794
Equipment rental	62,790	44,165
Medical and other supplies	1,338,306	1,459,212
Contract fees	1,165,547	853,906
Dietary expenses	66,519	74,409
Professional fees	34,492	81,748
Management fees	1,648,503	2,525,613
Other fees	61,743	41,734
Travel	7,056	8,359
Insurance	383,076	494,936
Utilities	225,808	202,493
Telephone	82,436	83,629
Housekeeping	9,542	8,305
Other	168,074	178,275
Depreciation	188,700	195,080
Provision for bad debts	<u>1,274,793</u>	<u>1,270,262</u>
Total expenses	<u>9,192,933</u>	<u>10,031,680</u>
Loss from operations	(550,980)	(601,462)
NONOPERATING INCOME	<u>2,127,293</u>	<u>1,480,501</u>
Increase in net assets	1,576,313	879,039
NET ASSETS		
Balance, beginning of year	<u>9,957,178</u>	<u>9,078,139</u>
Balance, end of year	<u>\$11,533,491</u>	<u>\$ 9,957,178</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and other third - party payors	\$ 7,808,330	\$ 7,946,735
Cash paid to suppliers of goods and services	(5,590,198)	(5,805,416)
Cash paid to employees for services	<u>(2,439,507)</u>	<u>(2,573,791)</u>
Net cash used by operating activities	<u>(221,375)</u>	<u>(432,472)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Millage collections	356,412	350,966
Sales tax receipts	<u>1,426,554</u>	<u>959,416</u>
Net cash provided by financing activities	<u>1,782,966</u>	<u>1,310,382</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(90,532)	(56,973)
Proceeds from sale of equipment	3,500	1,000
Purchases of certificates of deposit	(150,000)	(700,000)
Net increase in assets whose use is limited	(324,529)	(374,450)
Interest received on investments	159,246	91,714
Other	<u>75,295</u>	<u>45,487</u>
Net cash used in investing activities	<u>(327,020)</u>	<u>(993,222)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,234,571	(115,312)
CASH AND CASH EQUIVALENTS, beginning of year	<u>319,305</u>	<u>434,617</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,553,876</u>	<u>\$ 319,305</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Statements of Cash Flows (Continued)
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF EXPENSES IN EXCESS OF REVENUES PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (550,980)	\$ (601,462)
Adjustments to reconcile loss from operations to net cash used by operating activities		
Depreciation	188,700	195,080
Change in assets and liabilities:		
Accounts receivable - patients	418,291	(211,579)
Estimated third-party payor settlements	(88,659)	60,238
Other receivables	22,879	(1,642)
Inventories	33,397	(14,303)
Prepaid expenses	(20,742)	(1,095)
Accounts payable	(260,800)	128,907
Other payables and accrued expenses	<u>36,539</u>	<u>13,384</u>
Net cash used by operating activities	<u>\$ (221,375)</u>	<u>\$ (432,472)</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hospital Service District No. 1 (referred to as the "Hospital") is a component unit of the Vermilion Parish Police Jury, the governing body of the parish and the government body with oversight authority.

Nature of Business

The Hospital provides a variety of healthcare services including: 1) in-patient services such as acute, psychiatric and skilled nursing; 2) out-patient services such as diagnostic and therapeutic ancillaries, emergency room, and physician specialty clinics; and 3) other services.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual method. The Hospital accounting and reporting procedures also conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the *Louisiana Governmental Audit Guide*, and the *Audit and Accounting Guide – Health Care Organizations*, published by the American Institute of Certified Public Accountants, and standards established by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Method of Accounting

GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures* which establish financial reporting standards for state and local governments. These statements establish that the financial statements should consist of management's discussion and analysis (MD&A) to provide an analytical overview of the entity's financial activities, basic financial statements, and required supplementary information (RSI) as required by other GASB statements.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which include a statement of net assets, a statement of revenue, expenses, and changes in net assets; and a direct method statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were no restricted assets for years ended September 30, 2006 and 2005.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Accounts Receivable

The Hospital uses the allowance method to account for uncollectible accounts receivable.

Inventory

Inventory is stated at the lower of cost or market, with cost determined by the first-in, first-out, (FIFO) method.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Hospital considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. The caption “cash and cash equivalents” does not include amounts whose use is limited.

Income Taxes

The Hospital is a political subdivision and has been ruled exempt from federal and state income taxes, therefore, no provision for income taxes is necessary.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 1 PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment

Purchased fixed assets are stated at cost and donated fixed assets are stated at fair market value at the time of donation. Depreciation is computed on the double declining balance method for assets purchased prior to January 1, 1970, and on the straight-line method for assets purchased after January 1, 1970. The estimated useful lives, as recommended by the American Hospital Association, are as follows:

Buildings and Land Improvements	15-50 years
Equipment	5-25 years

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments, under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

The Hospital's policy allows full-time employees to carry forward annual leave beyond the fiscal year end. Full-time employees earn a maximum of 10 to 20 days of annual leave per year based upon the employee's length of service. Accordingly, annual leave has been accrued as a liability in the financial statements at the current pay rate of the employee in effect as of the balance sheet date.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 2 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consists of funds designated by the Board of Directors to be used for capital asset acquisitions and improvements.

NOTE 3 CASH AND INTEREST-BEARING DEPOSITS

Under state laws, the Hospital may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Hospital may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2006, the Hospital has cash and interest-bearing deposits, including certificates of deposit, (book balances) totaling \$8,498,013.

These deposits are stated at cost, which approximates market. Under state laws, the deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposit balances (bank balances) at September 30, 2006, are as follows:

Bank balances	<u>\$ 8,638,679</u>
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At September 30, 2006, the deposits are secured as follows:

Federal deposit insurance	\$ 300,000
Pledged securities (category 3)	<u>9,942,677</u>

Total	<u>\$10,242,677</u>
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Pledged securities in Category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Hospital's name. Even though the pledged securities are considered uncollateralized (Category 3), Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Hospital that the fiscal agent has failed to pay deposited funds upon demand.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 4 CERTIFICATES OF DEPOSIT

The Hospital held the following certificates of deposit at September 30, 2006:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>
<u>Current Assets:</u>			
Vermilion Bank & Trust Co.	\$ 200,000	3.53%	11/13/06
	200,000	3.79%	01/25/07
	200,000	3.79%	03/23/07
	50,000	3.79%	03/12/07
	200,000	3.79%	02/03/07
	400,000	3.53%	10/21/06
	150,000	3.53%	12/15/06
	350,000	3.53%	10/10/06
	500,000	3.54%	10/19/06
	<u>350,000</u>	3.53%	10/27/06
	<u>2,600,000</u>		
Kaplan State Bank	350,000	3.54%	12/14/06
	200,000	3.50%	11/13/06
	400,000	3.75%	02/01/07
	200,000	4.10%	03/01/07
	200,000	4.47%	04/21/07
	200,000	3.54%	10/30/06
	500,000	3.50%	10/25/06
	<u>350,000</u>	3.54%	10/29/06
	<u>2,400,000</u>		
	<u>\$ 5,000,000</u>		
<u>Assets whose use is limited:</u>			
Kaplan State Bank	200,000	3.50%	11/04/06
	<u>200,000</u>	3.50%	10/06/06
	<u>400,000</u>		
Vermilion Bank & Trust Co.	8,750	3.53%	10/28/06
	200,000	3.79%	01/18/07
	200,000	3.79%	01/26/07
	<u>200,000</u>	4.45%	02/20/07
	<u>608,750</u>		
	<u>\$ 1,008,750</u>		

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable are shown net of provision for doubtful accounts of \$451,251 and \$1,017,352 at September 30, 2006 and 2005, respectively, and contractual allowances of \$435,374 and \$345,264 for 2006 and 2005, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 6 PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment and related accumulated depreciation for the years ended September 30, 2006 and 2005:

	2006			
	September 30, 2005	Additions	Deductions	September 30, 2006
Land	\$ 58,893	\$ -	\$ -	\$ 58,893
Land improvements	55,689	-	-	55,689
Buildings	1,722,921	-	1,021	1,721,900
Fixed equipment	1,485,938	-	180,966	1,304,972
Major moveable equipment	1,574,064	90,535	506,262	1,158,337
Other moveable equipment	<u>224,406</u>	<u>-</u>	<u>11,277</u>	<u>213,129</u>
Total	5,121,911	90,535	699,526	4,512,920
Accumulated depreciation	<u>3,919,608</u>	<u>188,700</u>	<u>688,265</u>	<u>3,420,043</u>
Net	<u>\$ 1,202,303</u>	<u>\$ (98,165)</u>	<u>\$ 11,261</u>	<u>\$ 1,092,877</u>

	2005			
	September 30, 2004	Additions	Deductions	September 30, 2005
Land	\$ 58,893	\$ -	\$ -	\$ 58,893
Land improvements	55,689	-	-	55,689
Buildings	1,722,921	-	-	1,722,921
Fixed equipment	1,488,336	-	2,398	1,485,938
Major moveable equipment	1,563,463	56,972	46,371	1,574,064
Other moveable equipment	<u>227,529</u>	<u>-</u>	<u>3,123</u>	<u>224,406</u>
Total	5,116,831	56,972	51,892	5,121,911
Accumulated depreciation	<u>3,776,343</u>	<u>195,080</u>	<u>51,815</u>	<u>3,919,608</u>
Net	<u>\$ 1,340,488</u>	<u>\$ (138,108)</u>	<u>\$ 77</u>	<u>\$ 1,202,303</u>

NOTE 7 JOINT VENTURE AGREEMENT

The Hospital entered into a joint venture agreement with Acadian Homecare, Inc., a Louisiana corporation, for the purpose of managing a branch office in Kaplan, Louisiana to provide out-patient home health services. This agreement provides the Hospital a 33% interest in the profits and losses and/or liabilities that result from the venture, provided however that the Hospital's liability for said losses shall not exceed the sum of its capital contributions and the aggregate distributions received by the Hospital under the joint venture. The joint venture pays the Hospital quarterly for the Hospital's share of profits and pays \$1,000 per month to lease Hospital owned facilities and equipment. Revenue derived by the Hospital from the joint venture totaled \$104,056 and \$112,881 for the years ended September 30, 2006 and 2005, respectively.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 8 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

In-patient acute care services rendered to Medicare program beneficiaries are paid at per diem rates. In-patient nonacute services, certain out-patient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Psychiatric services (BHU) rendered to Medicare program beneficiaries are paid at prospectively determined rates.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid

In-patient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Commercial

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. During the years ended September 30, 2006 and 2005, the following revenues were obtained from these programs:

	<u>2006</u>	<u>2005</u>
Medicare and Medicaid gross patient charges	\$ 8,629,951	\$ 9,180,239
Contractual adjustments	<u>4,070,663</u>	<u>4,414,138</u>
Net Medicare and Medicaid patient service revenue	<u>\$ 4,559,288</u>	<u>\$ 4,766,101</u>
Net patient service revenue	<u>\$ 7,429,545</u>	<u>\$ 8,231,606</u>
Percent of Medicare and Medicaid net service revenue to net patient service revenue	<u>61%</u>	<u>58%</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 9 REVENUE RECOGNITION - PROPERTY TAX

The Hospital receives funds from a property tax which was adopted by the voters of Vermilion Parish. The parish tax is levied each year by the Vermilion Parish Tax Assessor on November 15 based upon the assessed value on the previous January 1 of all real and business personal property within the Parish. The assessed value of the property on the tax rolls as of January 1, 2005 was approximately \$52 million.

The tax becomes due on November 15 and is considered delinquent if not paid by December 31. Most of the property tax revenues are collected during the months of December, January, and February. During May of the subsequent year, properties with delinquent taxes are advertised for auction by the Parish Sheriff. The auction is normally scheduled for June or July. It is at this time a lien is placed on the property. Properties not sold at the auction are adjudicated to the State of Louisiana.

After considering tax exemptions, the net amount of property taxes received by the Hospital was \$356,412 and \$350,966 for the years ended September 30, 2006 and 2005, respectively.

NOTE 10 SALES TAX REVENUE

A one percent sales tax proposition was approved by voters for a 10-year period effective April 1, 2001. Proceeds of this sales tax are dedicated towards the costs associated with operating, maintaining, and improving the facilities of the Hospital related to providing emergency medical service. Revenue for the years ended September 30, 2006 and 2005 totaled \$1,511,793 and \$984,164, respectively.

NOTE 11 CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE

The Hospital, located in Kaplan, Louisiana, grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements in which payment collection is significantly certain. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the following table. Changes in federal or state legislation or interpretations of rules could have a significant impact on the Hospital's operations. Revenue from patients and third-party payers were as follows:

	<u>2006</u>	<u>2005</u>
Medicare	58%	56%
Medicaid	14%	12%
Insurance	17%	21%
Private pay	11%	11%

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 12 PENSION PLAN

The Hospital has a compulsory defined contribution pension plan covering all employees. Employee and employer each contributed four and one half percent of annual pay. Total pension expense for the Hospital for the years ended September 30, 2006 and 2005 was \$1,082 and \$23,794, respectively.

NOTE 13 EMPLOYEE BENEFIT TRUST FUND

The Hospital has a self-insurance program for employee health benefits. The plan is self-funded from the Hospital and employee contributions and benefit payments are made, pursuant to the plan provisions, from the portion of these contributions which have been placed in the Benefit Trust Account. The self-insurance program is underwritten.

The Benefit Trust Account is an irrevocable trust, and can be used only to pay claims and employee benefit insurance premiums. The Fund is accounted for as a separate entity and, accordingly, is not reflected in these financial statements.

At September 30, 2006 and 2005, the plan's benefit obligation totaled \$22,141 and \$40,363, respectively, while the available funds in the benefit trust account totaled \$77,574 and \$139,207, respectively.

NOTE 14 OPERATING LEASES

The Hospital leases equipment under noncancelable operating leases with three to ten year terms. The following is a schedule of annual future minimum lease payments as of September 30, 2006:

2007	\$ 161,617
2008	112,347
2009	45,847
2010	30,212
2011	18,156
2012-2015	<u>25,788</u>
	<u>\$ 393,967</u>

Rent expense under these leases totaled \$175,520 and \$171,193 for the years ended September 30, 2006 and 2005, respectively.

NOTE 15 CONTINGENT LIABILITIES

Various malpractice suits are pending against the Hospital. These suits have been turned over to the Hospital's insurance carrier. The Hospital is fully insured should any loss be incurred, therefore, no liability is shown in these financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Notes to Financial Statements

NOTE 15 CONTINGENT LIABILITIES (Continued)

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No accrual for potential contingent liabilities, such as, but not limited to, those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted, and, therefore, no estimate of loss, if any, is determinable.

Third Party Cost-Based Revenues - Cost reimbursements are subject to examination by agencies administering the Medicare and Medicaid programs. The Medicare program has discontinued its cost-based reimbursement system for in-patient services. Currently, the Hospital receives a fixed fee for each patient as determined by the government using the patient's diagnosis. The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations, and general instructions of those programs. The amount of such adjustments cannot be readily determined.

ADDITIONAL INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of Net Patient Service Revenue
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
IN-PATIENT SERVICE REVENUE	\$ 6,066,703	\$ 7,901,162
OUT-PATIENT SERVICE REVENUE	<u>6,200,103</u>	<u>5,674,102</u>
	<u>12,266,806</u>	<u>13,575,264</u>
DEDUCTIONS FROM PATIENT SERVICE REVENUE		
Contractual allowances	4,454,317	4,828,760
Discounts	<u>382,944</u>	<u>514,898</u>
	<u>4,837,261</u>	<u>5,343,658</u>
Net Patient Service Revenue	<u>\$ 7,429,545</u>	<u>\$ 8,231,606</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of In-Patient Service Revenue
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ROUTINE SERVICES		
Room and board	\$ 959,216	\$ 1,060,006
SPECIAL SERVICES		
Anesthesiology	69,393	73,915
Blood administration	26,409	28,343
Electrocardiology	21,156	31,146
Emergency room	28,444	154,745
Intravenous therapy	256,359	176,123
Laboratory	256,193	377,564
Med staff physician	11,445	47,885
Medical and surgical	475,783	399,836
Nuclear medicine	153,372	176,015
Operating room	94,552	100,050
Pharmacy	669,979	685,423
Physical therapy	18,522	15,188
Psychiatric	2,646,731	3,947,922
Radiology	46,538	102,264
Recovery room	22,200	18,640
Respiratory therapy	255,985	419,644
Ultrasound	<u>54,426</u>	<u>86,453</u>
	<u>\$ 6,066,703</u>	<u>\$ 7,901,162</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of Out-Patient Service Revenue
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Anesthesiology	\$ 84,650	\$ 90,122
Blood administration	11,622	9,034
Clinic	210,563	283,261
Emergency room	1,000,898	979,416
Electrocardiology	86,616	73,578
Intravenous therapy	100,965	45,758
Laboratory	1,482,286	1,426,580
Medical and surgical	324,880	290,167
Medical staff - weekend physician	563,136	460,053
Nuclear medicine	959,266	717,700
Operating room	120,970	139,960
Nursing home	10,473	15,126
Pharmacy	310,511	211,132
Radiology	596,221	607,248
Recovery room	69,940	75,160
Respiratory therapy	87,902	79,688
Ultrasound	<u>179,204</u>	<u>170,119</u>
	<u>\$ 6,200,103</u>	<u>\$ 5,674,102</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of Other Revenue
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cafeteria sales	\$ 61,902	\$ 54,756
Recovery of bad debt	94,553	80,095
Medicare TOPS/Incentive	20,172	173,273
Bed lease income	-	63,500
Rural coalition income	825,702	643,663
Joint venture income	104,056	112,881
Other income	<u>106,023</u>	<u>70,444</u>
	<u>\$ 1,212,408</u>	<u>\$ 1,198,612</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of Vermilion

State of Louisiana

**Schedules of Professional Expenses
Years Ended September 30, 2006 and 2005**

	2006			2005		
	Salaries	Professional fees, Supplies and Direct Expenses	Total	Salaries	Professional fees, Supplies and Direct Expenses	Total
Anesthesia	\$ -	\$ 246,942	\$ 246,942	\$ -	\$ 252,690	\$ 252,690
Blood bank	-	22,496	22,496	-	25,999	25,999
Electrocardiology	-	255	255	-	141	141
Emergency room	231,848	841,309	1,073,157	307,993	658,238	966,231
Ambulance	-	15,000	15,000	-	15,000	15,000
Home health	-	3,354	3,354	-	3,277	3,277
Intravenous therapy	-	11,980	11,980	-	9,247	9,247
Laboratory	219,628	421,255	640,883	192,619	443,022	635,641
Medical and surgical	27,144	141,234	168,378	25,498	141,783	167,281
Medical records	64,895	68,860	133,755	50,783	75,581	126,364
Medical staff	-	30,144	30,144	-	53,288	53,288
Nuclear medicine	-	252,981	252,981	-	239,941	239,941
Nursing service	697,536	32,157	729,693	677,352	47,070	724,422
Operating room	139,030	30,465	169,495	144,152	41,025	185,177
Pharmacy	-	347,041	347,041	-	363,079	363,079
Physical therapy	-	63,576	63,576	-	16,774	16,774
Primary care clinic	216,822	24,534	241,356	216,528	42,314	258,842
Psychiatric	-	937,171	937,171	-	1,912,992	1,912,992
Radiology	165,362	89,590	254,952	166,239	75,979	242,218
Respiratory therapy	-	195,660	195,660	-	170,914	170,914
Speech therapy	-	-	-	-	675	675
	<u>\$ 1,762,265</u>	<u>\$ 3,776,004</u>	<u>\$ 5,538,269</u>	<u>\$ 1,781,164</u>	<u>\$ 4,589,029</u>	<u>\$ 6,370,193</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of General and Administrative Expenses
Years Ended September 30, 2006 and 2005

	2006			2005		
	Salaries	Professional fees, Supplies and Direct Expenses	Total	Salaries	Professional fees, Supplies and Direct Expenses	Total
Administrative	\$ 128,973	\$ 94,464	\$ 223,437	\$ 116,598	\$ 18,491	\$ 135,089
Administrative - fiscal	38,547	80,599	119,146	37,304	53,806	91,110
Administrative - other	-	85,756	85,756	-	74,955	74,955
Business office	146,516	19,067	165,583	157,920	21,103	179,023
Credit and collections	-	13,513	13,513	80	9,436	9,516
 Data processing	49,724	29,366	79,090	44,527	32,330	76,857
Dietary	102,978	142,516	245,494	109,705	150,792	260,497
Dues and subscriptions	-	48,388	48,388	-	60,078	60,078
Employee benefits	-	261,779	261,779	-	428,422	428,422
Housekeeping	104,678	101,590	206,268	102,364	62,004	164,368
 Insurance	-	176,931	176,931	-	160,498	160,498
Laundry	-	30,076	30,076	-	38,037	38,037
Linen	-	3,869	3,869	-	1,678	1,678
Personnel	-	3,645	3,645	-	3,865	3,865
Plant operations	93,147	279,664	372,811	90,832	265,694	356,526
 Printing and duplicating	-	28,385	28,385	-	30,137	30,137
Supplies, processing and distribution	47,638	1,303	48,941	45,266	1,254	46,520
Telephone and communications	-	78,059	78,059	-	78,969	78,969
	<u>\$ 712,201</u>	<u>\$ 1,478,970</u>	<u>\$ 2,191,171</u>	<u>\$ 704,596</u>	<u>\$ 1,491,549</u>	<u>\$ 2,196,145</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedules of Nonoperating Income
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Interest	\$ 191,551	\$ 98,962
Millage income	356,412	350,966
Miscellaneous	39,622	38,435
Rent	35,673	7,052
Sales tax income	1,511,793	984,164
Gain(loss) on disposal of assets	<u>(7,758)</u>	<u>922</u>
	<u>\$ 2,127,293</u>	<u>\$ 1,480,501</u>

See independent auditor's report.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedule of Commissioners, Meetings Attended and Compensation
Year Ended September 30, 2006

<u>Name of Commissioner</u>	<u>Meetings Attended</u>	<u>Compensation</u>
Tom Baudoin	12	\$1,200
Ivan Bourque	11	1,100
Ronald Menard	12	1,200
Winnie Broussard	12	1,200
Del Dean David	12	1,200
Lori Winch	6	600
John Francis	12	1,200
Dr. Patel	8	800

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Commissioners
Hospital Service District No. 1
Parish of Vermilion, State of Louisiana
Kaplan, Louisiana

We have audited the financial statements of Hospital Service District No. 1, Parish of Vermilion, State of Louisiana, a component unit of the Vermilion Parish Police Jury, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Eugene H. Darnall, CPA, Retired 1990
Paula D. Bihm, CPA, Deceased 2002

E. Larry Sikes, CPA, CVA, CFP™
Danny P. Frederick, CPA
Clayton E. Darnall, CPA, CVA
Eugene H. Darnall, III, CPA
Stephanie M. Higginbotham, CPA
John P. Armato, CPA
J. Stephen Gardes, CPA, CVA
Jennifer S. Ziegler, CPA, CFP™
Chris A. Miller, CPA, CVA
Stephen R. Dischler, MBA, CPA
Steven G. Moosa, CPA
M. Rebecca Gardes, CPA
Pamela Mayeux Bonin, CPA, CVA
Joan B. Moody, CPA
Erich G. Loewer, III, MTX, CPA
Lauren F. Verrett, CPA

Kathleen T. Darnall, CPA
Raegan D. Maggio, CPA
Barbara A. Clark, CPA
Michelle B. Bellard, CPA
Jeremy C. Meaux, CPA
Kevin S. Young, CPA
Barbara Ann Watts, CPA
Adam J. Curry, CPA
Chad M. Bailey, CPA
Carol C. Guillory, CPA
Christy S. Dew, CPA
Heather N. Clement, CPA
Victoria M. LaPrairie, CPA
Emily J. LeBoeuf, CPA
Rachel W. Ashford, CPA

125 Rue Beaugard
Lafayette, LA 70508
Phone: 337.232.3312
Fax: 337.237.3614

1231 E. Laurel Ave.
Eunice, LA 70535
Phone: 337.457.4146
Fax: 337.457.5060

1201 Brashear Ave.
Suite 301
Morgan City, LA 70380
Phone: 985.384.6264
Fax: 985.384.8140

203 S. Jefferson Street
Abbeville, LA 70510
Phone: 337.893.5470
Fax: 337.893.5470

Member of:
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of commissioners, management and others within the organization and is not intended to and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Dannall, Sikes, Gaudes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana

February 27, 2007

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedule of Prior Year Findings
Year Ended September 30, 2006

This section is not applicable.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana

Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Part I Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report

An unqualified opinion has been issued on the Hospital's financial statements as of and for the year ended September 30, 2006.

Reportable Conditions - Financial Reporting

There were no reportable conditions in internal control noted during the audit of the financial statements.

Material Noncompliance - Financial reporting

There were no instances of noncompliance noted during the audit.

FEDERAL AWARDS

This section is not applicable.

Management Letter

This section is not applicable.

Part II Findings Relating to an Audit in Accordance with *Government Auditing Standards*

This section is not applicable.

Part III Findings and Questioned Costs Relating to Federal Programs

This section is not applicable.

**HOSPITAL SERVICE DISTRICT NO. 1
Parish of Vermilion
State of Louisiana**

**Management Corrective Action Plan
Year Ended September 30, 2006**

This section is not applicable.